



Summary

Real Economy: Recent data on economic activity pointed to a seasonal slowdown in July, in line with the usual pattern around Eid al-Fitr holidays.

Economic Growth: Data on real GDP growth points to healthy growth in the economy during the second quarter of 2015, mainly owing to an increase in oil sector growth.

Government Finance: Net withdrawals from government accounts with SAMA fell to a ten month low in July. This has led to a further reduction in withdrawals from foreign exchange reserves.

Labor Market: During the first half of this year, Saudi unemployment rate fell slightly to 11.6 percent as the economy created new jobs at a faster rate than the expansion in the Saudi labor force.

Banking Indicators: Growth in bank credit to the private sector slowed in July, month-on-month, but remained solid on an annual basis. The loan-to-deposit ratio rose to 81.2.

Inflation: In July, inflation remained unchanged, year-on-year, at 2.2 percent. The housing segment was the major source for inflationary pressure.

Balance of Payments: During the first quarter, the Kingdom's current account recorded its first deficit since Q1 2009, reaching – \$10.5 billion, mainly impacted by lower oil export revenues.

Oil-Global: A continued growth in global oil supply and concerns over demand combined to push Brent prices down by 18 percent, month-on-month.

Oil-Regional: Saudi crude production in July average above 10 mbpd and we see this elevated level of output continuing for the foreseeable future.

Exchange Rates: A devaluation in the Chinese renminbi affected a number of currencies in August.

Stock Market: A fall in the Chinese stock market prompted a mass sell-off across global markets as investor sentiment dampened.

Volumes: Although average turnover edged up in August, it is still below the year-to-date average in most sectors.

Valuations: Price-to-earnings (PE) dropped below the two year average for the first time since January 2015.

Sectorial Performance: All fifteen sectors saw negative performances in August due to negative sentiment.

For comments and queries please contact:

Fahad M. Alturki
Chief Economist and Head of Research
falturki@jadwa.com

Asad Khan
Senior Economist
rkhan@jadwa.com

Rakan Alsheikh
Research Analyst
ralsheikh@jadwa.com

Head office:
Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

Jadwa Investment is licensed by the Capital Market Authority to conduct Securities Businesses, license number 6034-37.

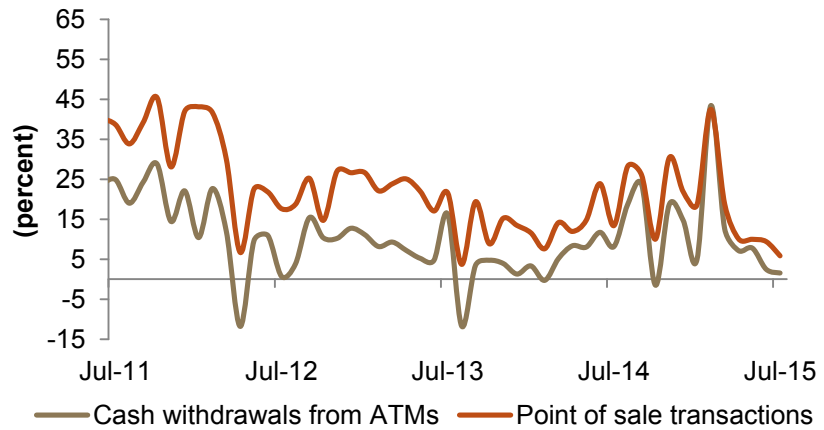


Real Economy

Recent data on economic activity point to a seasonal slowdown in July, and in line with the usual pattern around Eid al-Fitr holidays. Year-on-year growth in both cash withdrawals from ATMs and point of sale transactions fell. Steel production and cement sales also recorded seasonal falls in July

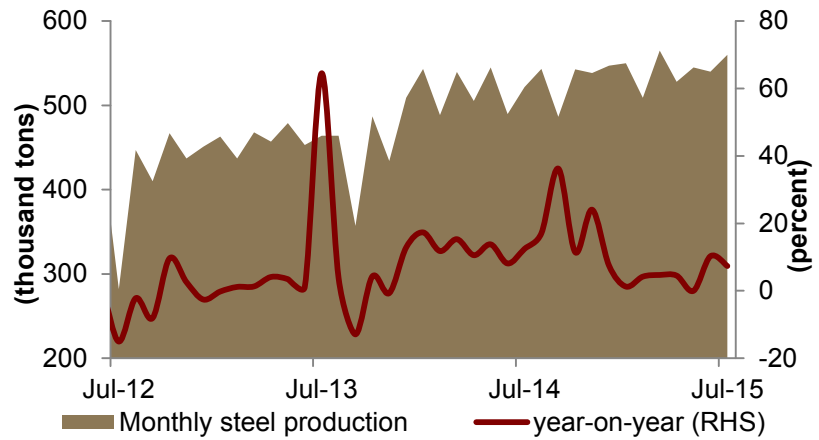
Withdrawals from ATMs and point of sale transactions fell to 1.6 percent, and 5.8 percent, year-on-year respectively.

Indicators of consumer spending



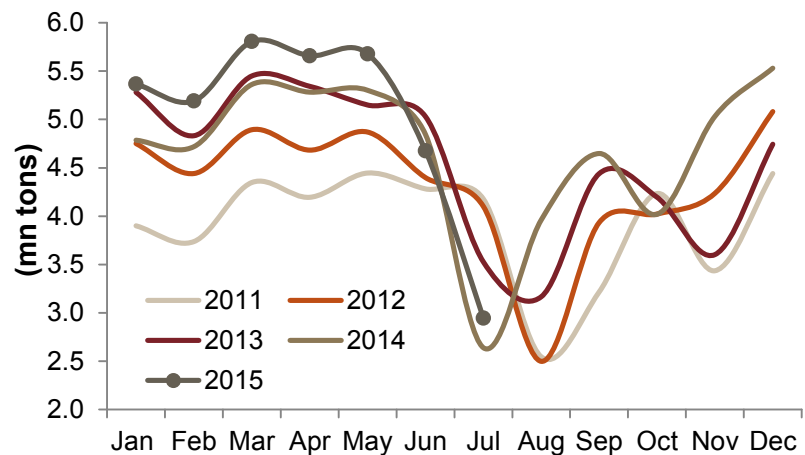
In July, growth in crude steel production fell slightly to 7.4 percent, year-on-year, down from 10.3 percent during the previous month.

Steel production



Cement sales were impacted by a seasonal slowdown, reaching 2.9 million tons in July, down from 4.7 million tons in the previous month.

Cement sales

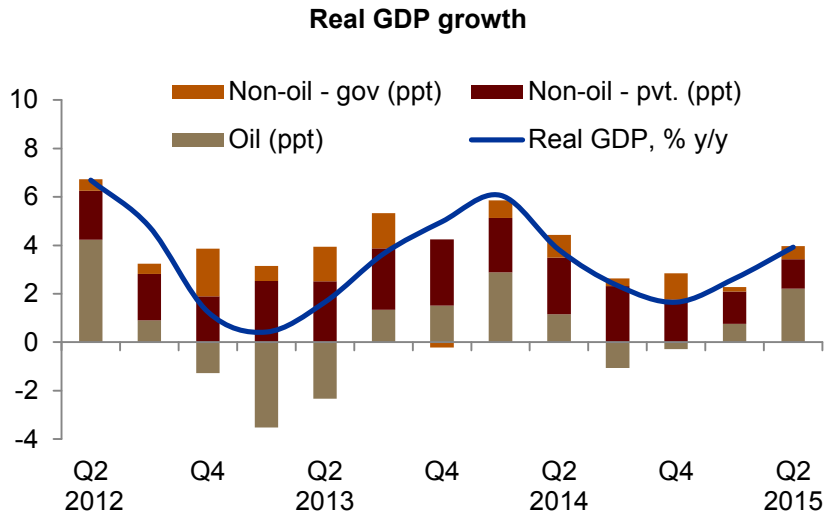




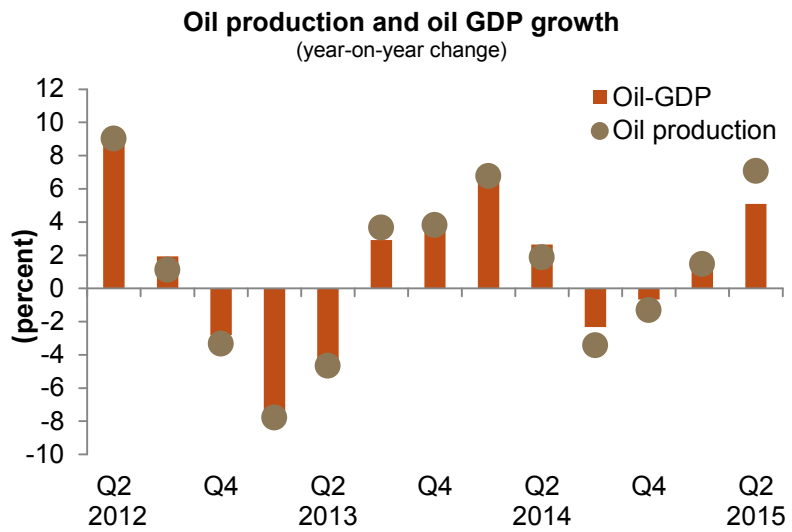
Economic Growth

Data on real GDP growth points to healthy growth in the economy during the second quarter of 2015. Real GDP growth stood at 3.8 percent, year-on-year, up from 2.4 percent during the previous quarter. An increase in oil production meant the oil sector was the main contributor to overall GDP growth.

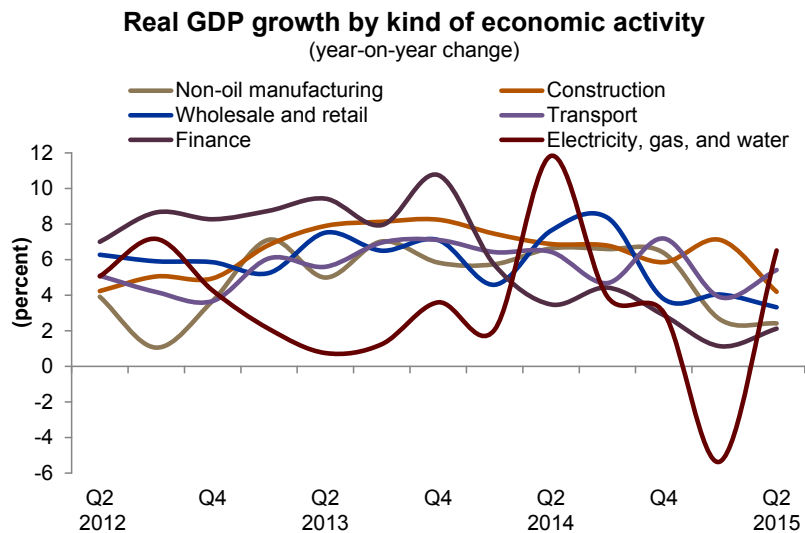
During the second quarter, overall GDP grew by 3.8 percent, year-on-year, up from 2.4 percent in the previous quarter...



...mainly owing to an increase in oil sector GDP, which was boosted by a 7.1 percent year-on-year increase in oil production...



...while the non-oil private sector continued to register healthy annual growth. Utilities, construction, and transport were the fastest growing sectors during the second quarter.





Government Finance

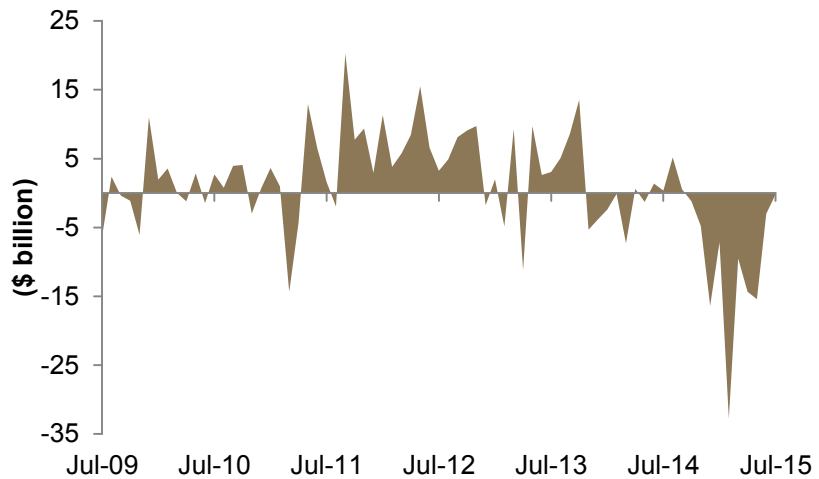
In July, net withdrawals from government accounts with SAMA fell to its lowest point in ten months. A breakdown shows that all three main government accounts recorded small net monthly changes. This led to a further reduction in the monthly withdrawals from foreign exchange reserves.

In July, net withdrawals from government accounts with SAMA fell to a ten month low to reach \$203 million. The year-to-July net withdrawal reached \$82.3 billion (36 percent of budgeted spending).

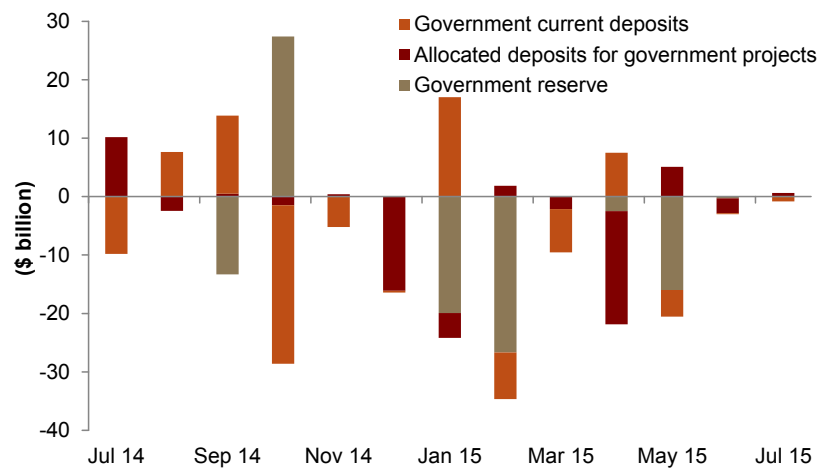
All three main accounts recorded small net monthly changes. The projects account recorded a \$581 million net monthly increase, pointing to likely disbursements on public projects in coming months.

As a result, the monthly withdrawal from foreign exchange reserves fell to \$3.3 billion. Total year-to-July withdrawals reached \$65.1 billion

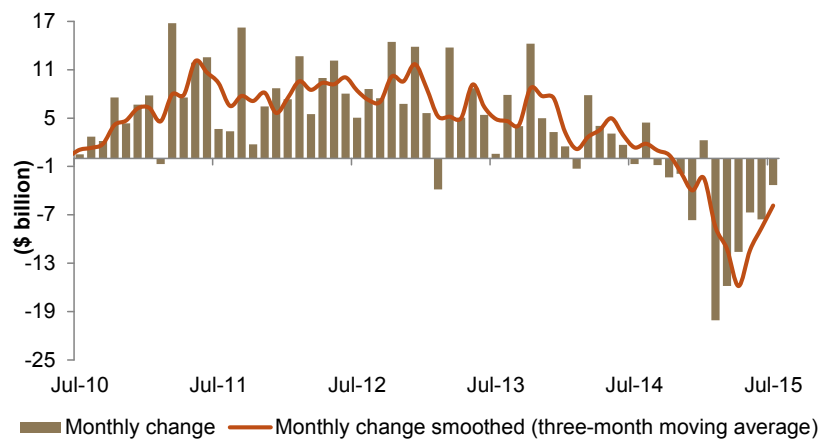
Government accounts with SAMA
(month-on-month change)



Breakdown of government accounts
(month-on-month change)



Change in foreign exchange reserve assets

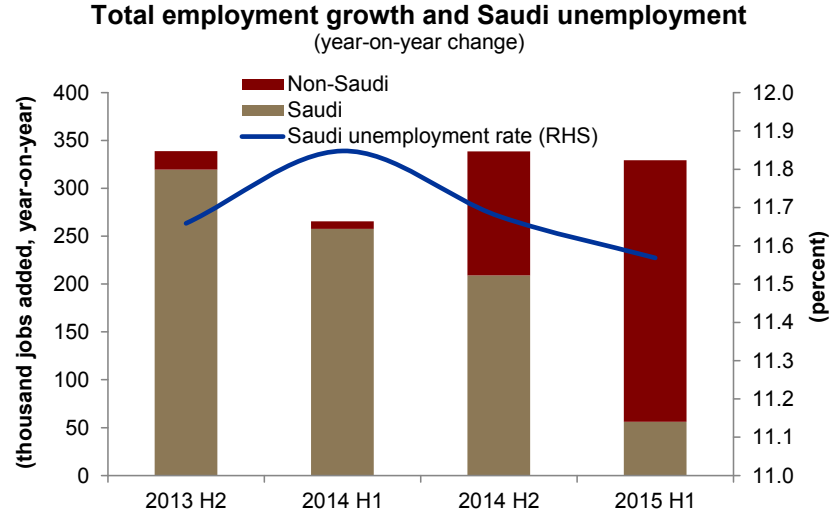




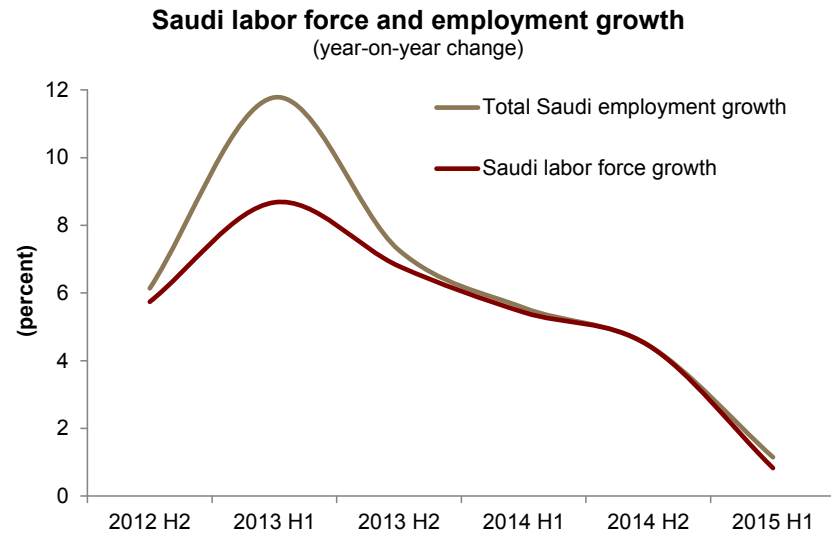
Labor Market

During the first half of 2015, Saudi unemployment rate fell slightly to 11.6 percent as the economy created new jobs at a faster rate than the expansion in the Saudi labor force. Yet, the growth of the latter was slower than that of the number of Saudis outside the labor force, which led to a decline in the participation rate to 40.4 percent.

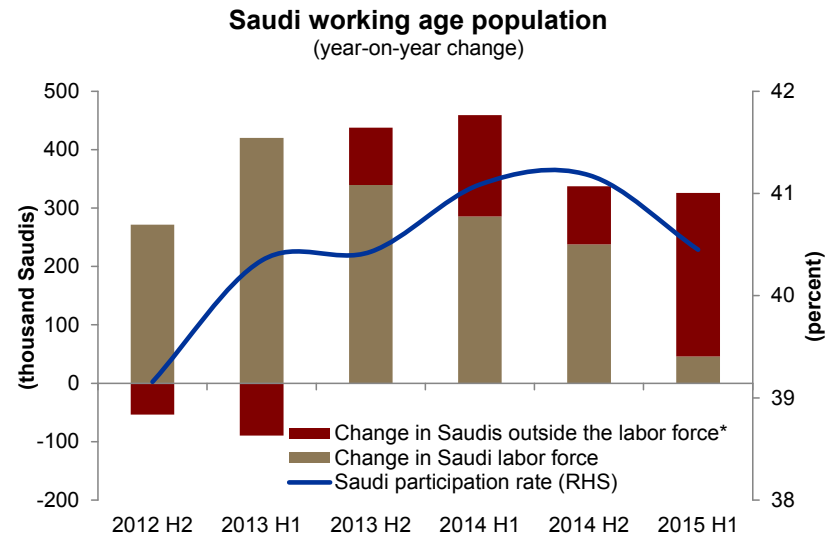
In H1 2015, the Saudi unemployment rate fell slightly to 11.6, down from 11.8 percent a year earlier...



... as the economy created new jobs at a faster rate than the expansion in the Saudi labor force...



In year-on-year terms, the slowing number of Saudis joining the labor force (45.8 thousand) was associated with a larger increase in the number of working age Saudis outside the labor force (280.2 thousand), pushing the labor force participation rate to 40.4 percent in H1 2015, down from 41.1 percent a year earlier.



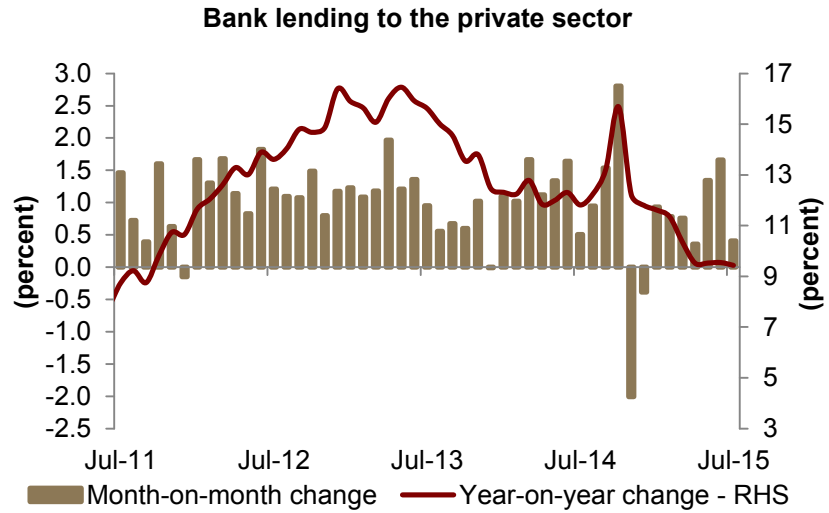
Note*: refers to change in working age Saudis outside the labor force (15 - 64 years)



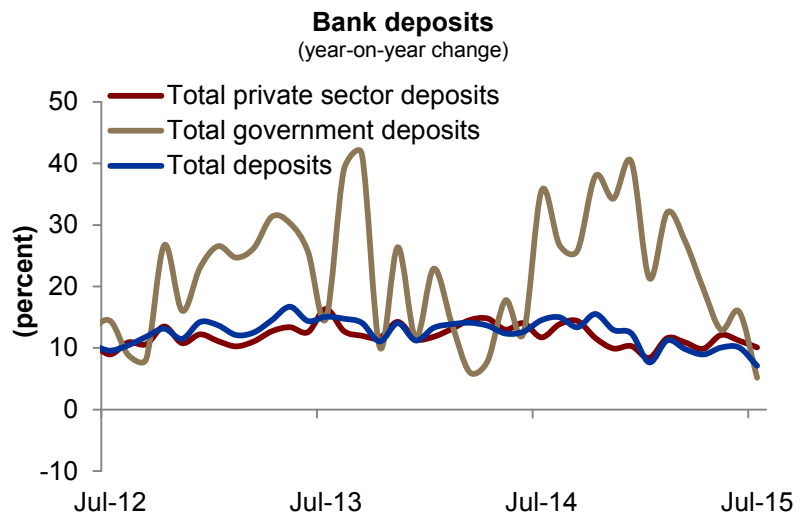
Banking Indicators

In July, growth in bank credit to the private sector slowed, month-on-month, but remained solid on an annual basis. Year-on-year growth in total deposits fell to its lowest point since 2010, pushed down by slower growth in government deposits. The relatively higher growth in credit pushed the loan-to-deposit ratio up to 81.2

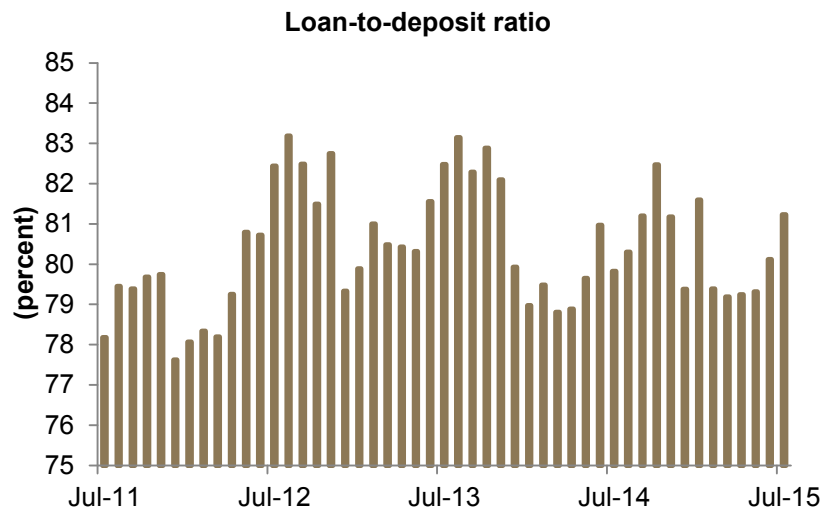
In July, bank credit to the private sector slowed, month-on-month, to 0.4 percent.



Total deposit growth fell to 7.1 percent, year-on-year, its lowest point since 2010, due to a slowdown in the growth of government deposits.



The relatively higher growth in credit continued to push the loan-to-deposit ratio up for the second consecutive month to reach 81.2 in July.

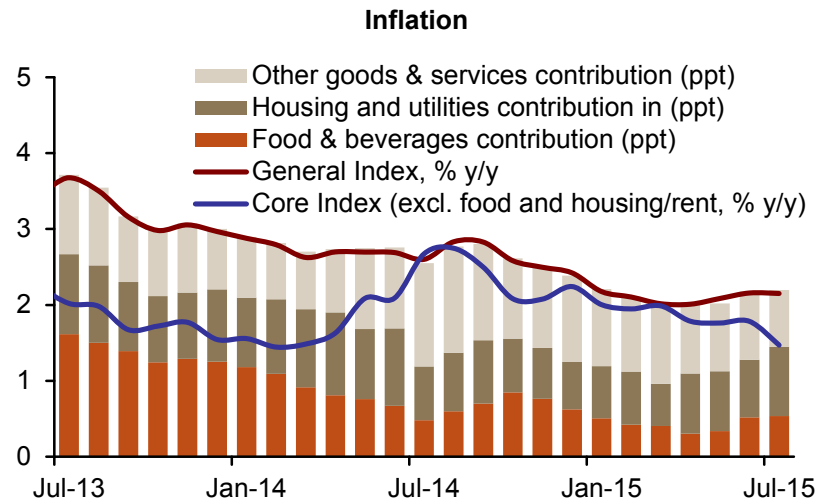




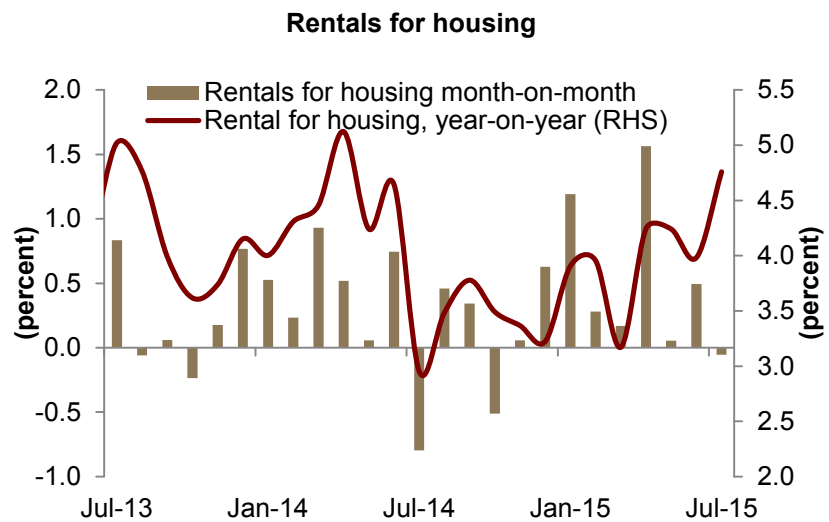
Inflation

In July, inflation remained unchanged, year-on-year, at 2.2 percent. The housing segment was the major source for inflationary pressure in July as it rose to 3.6 percent, year-on-year. Our measure of core inflation recorded a slowdown, pushed down mainly by a rapid deceleration in the recreation and culture segment.

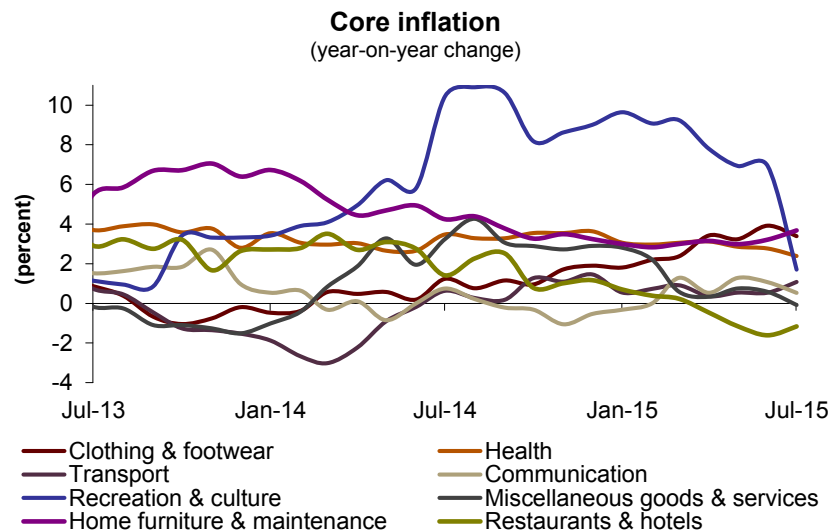
In July, year-on-year inflation remained unchanged at 2.2 percent.



The contribution to overall inflation shifted towards the housing component, which was pushed up by a year-on-year rise in the rentals for housing segment.



The slowdown in the core index was mainly driven by a rapid deceleration in the recreation and culture segment, while the restaurants and hotels segment continued its deflationary trend for the fourth consecutive month.



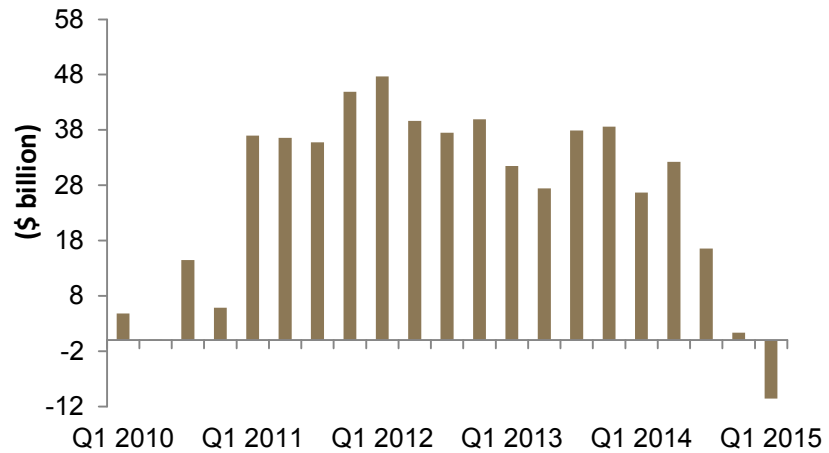


Balance of payments

In the first quarter, the Kingdom's current account recorded its first deficit since Q1 2009, reaching $-\$10.5$ billion, mainly impacted by lower oil export revenues. The Kingdom's trade balance remained in surplus at $\$14.6$ billion with both exports and imports falling. The deficit in the services account continued to shrink.

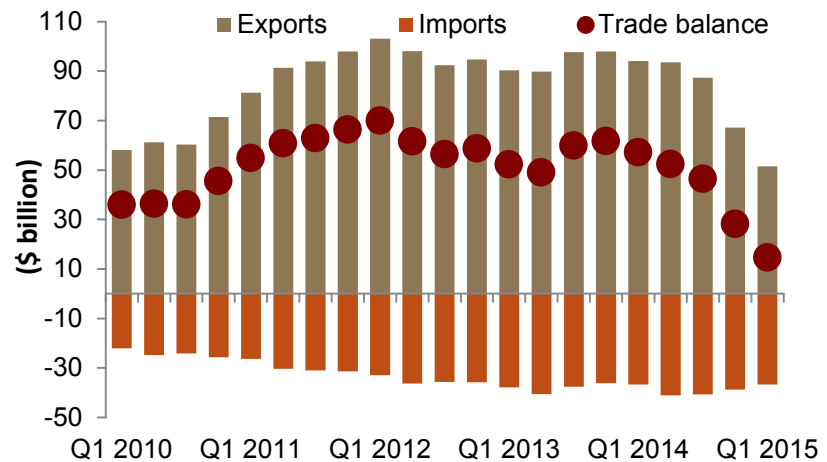
In Q1 2015, the Kingdom's current account recorded its first deficit since Q1 2009, reaching $-\$10.5$ billion...

Current account

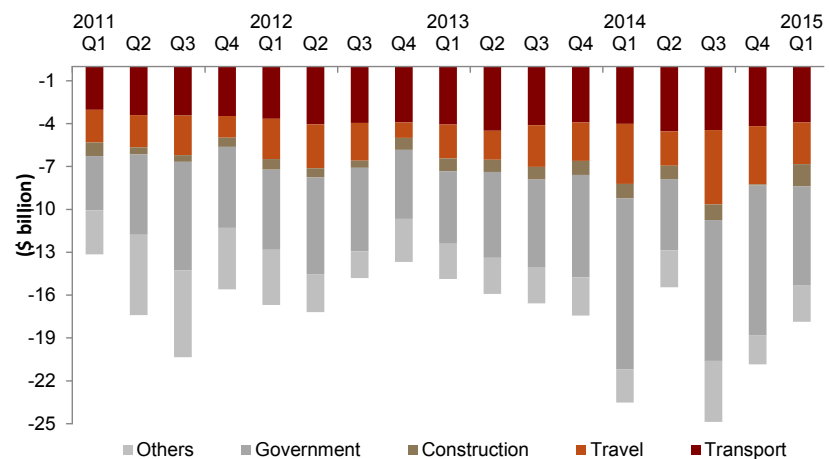


... owing to lower oil export revenues, while Q1 imports also came out lower at $\$36.6$ billion. As a result, the trade balance remained positive but fell to $\$14.6$ billion, its lowest point since Q2 2006.

Trade balance



Breakdown of services account



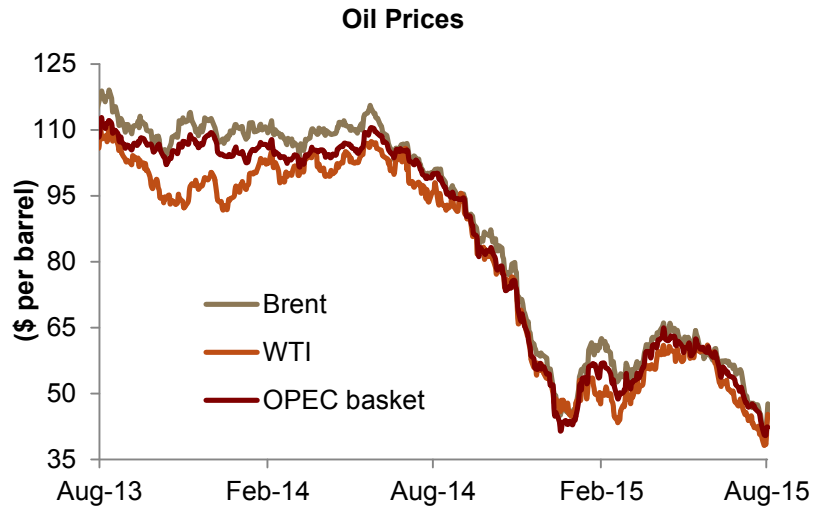
The deficit in the services account continued to shrink for the second quarter to reach $\$17.9$ billion following record outflows in Q3 2014. The main factor behind this is payments for government services which stood at $\$7$ billion in Q1 2015.



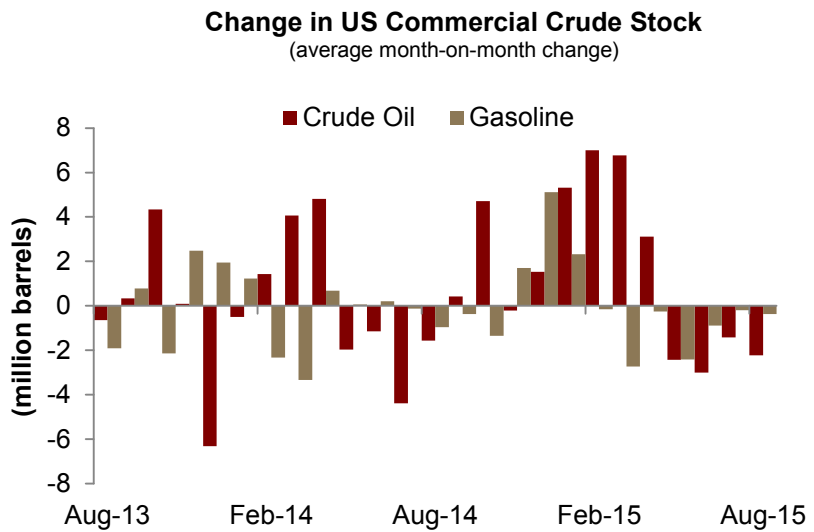
Oil - Global

A continued growth in global oil supply and concerns over demand, due to uncertainty linked with Chinese economic growth, combined to push Brent prices down by 18 percent in August, month-on-month. WTI prices were also affected, down 16 percent. Yet, latest data available shows Chinese oil imports were up 7 percent, year-to-July.

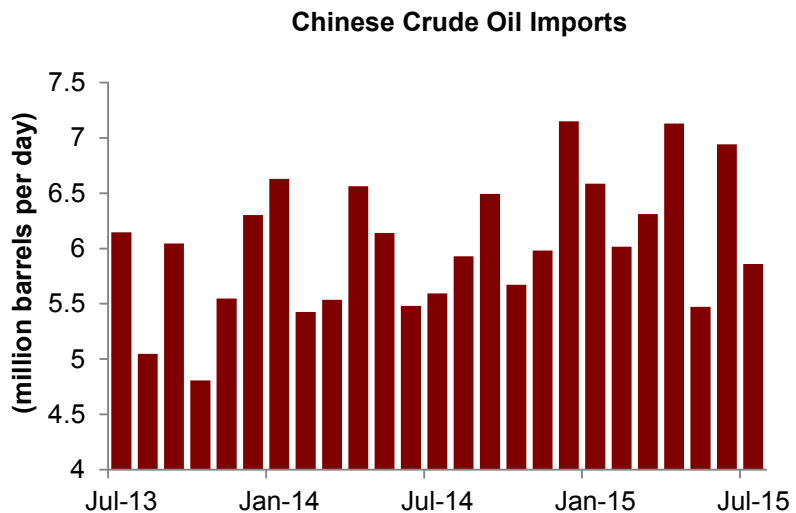
Brent and WTI prices were down in August, month-on-month, although there was an upward spike towards the end of the month.



US demand held up well, with a drawdown in both gasoline and crude oil stocks in August...



...and latest available data showed Chinese crude oil imports being up by 7 percent, year-to-July, despite seasonal fluctuations.



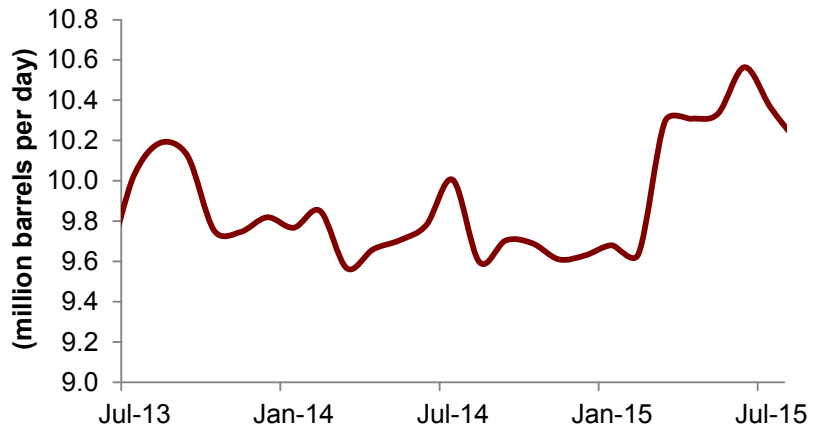


Oil - Regional

Saudi crude production in July averaged above 10 mbpd and we see this elevated level of output continuing for the rest of the year. The competition for global oil market share is becoming intense, as witnessed by an increase in output from Iraq in July. Latest data shows that global oil demand will pick up in 2016.

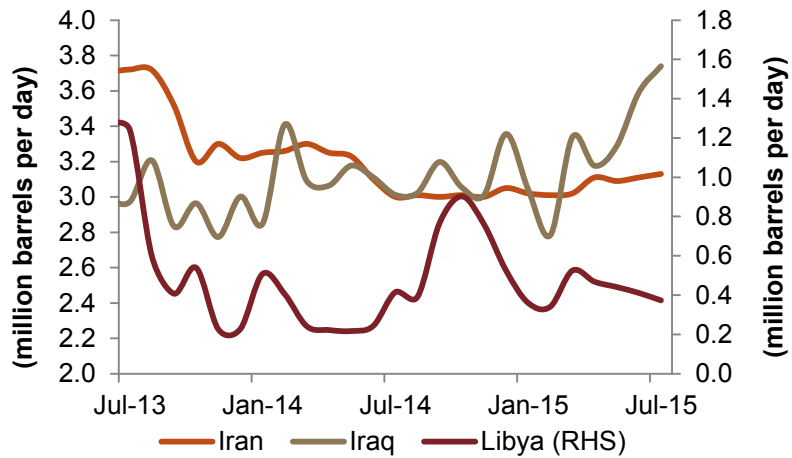
Saudi production averaged 10.4 mbpd in July, down from the previous month's high of 10.6 mbpd.

Saudi crude production

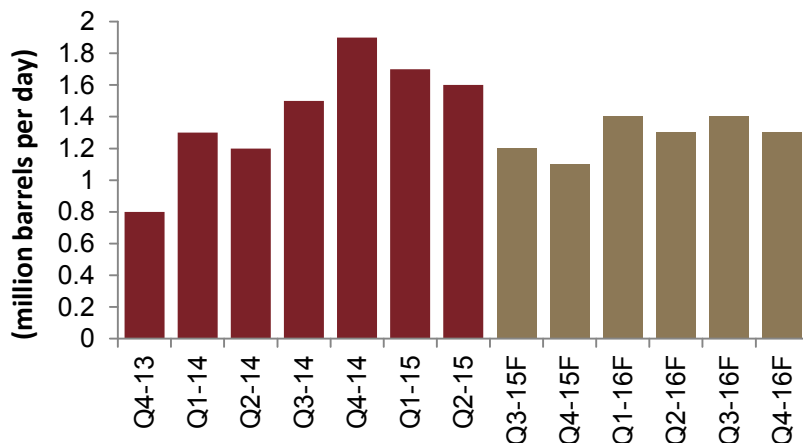


Iraqi production increased by 4 percent month-on-month, to 3.7 mbpd. We see upside to OPEC production going forward.

Iraq, Iran and Libya production



Global oil demand
(year-on-year growth)



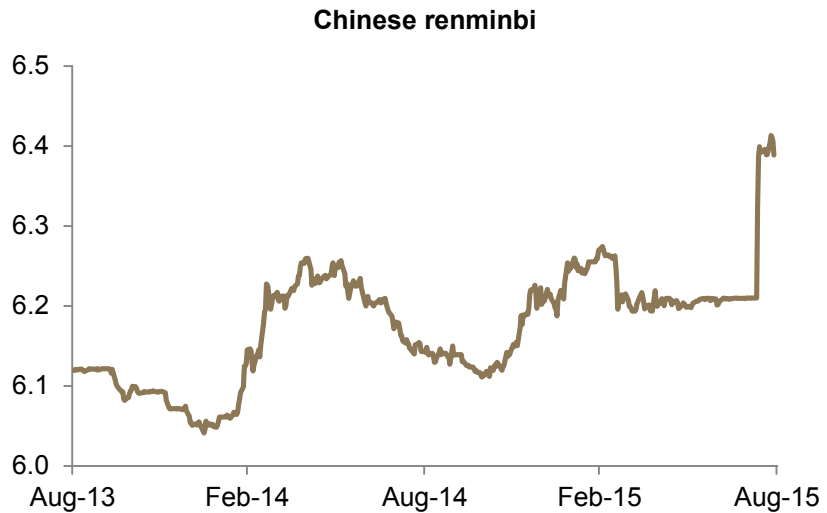
Global oil demand is expected to pick up in 2016, but the support for oil prices will not be strong.



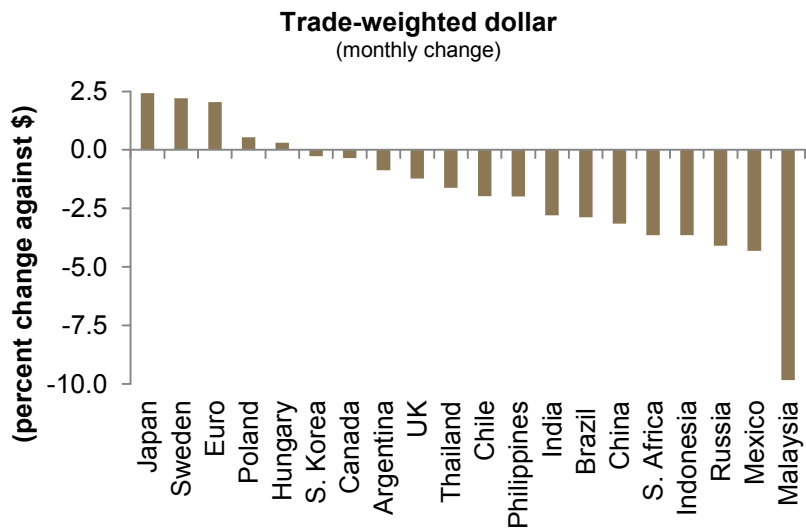
Exchange Rates

A devaluation in the Chinese renminbi affected a number of currencies in August. Commodity exporters and emerging markets closely linked to trade with China suffered the largest falls. The one year dollar riyal forward rose sharply in August but we see no threat to the peg going forward.

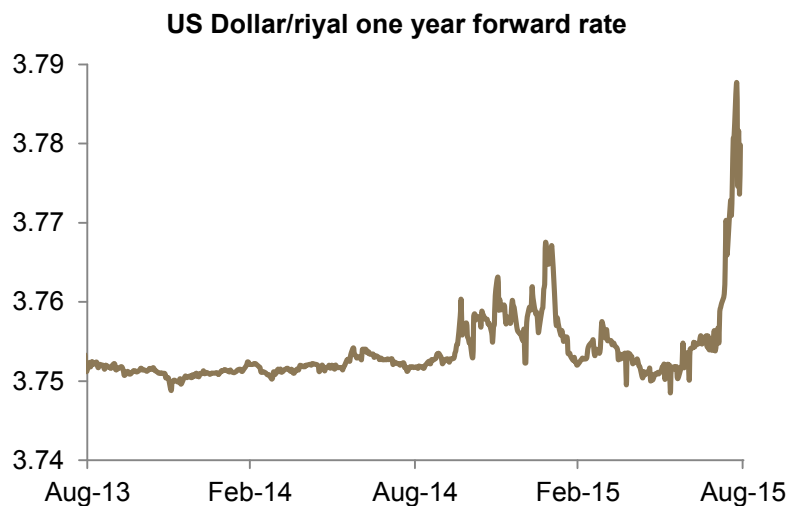
The devaluation of the renminbi was seen as move to boost exports amid suspected weaker Chinese economic growth...



...which led to emerging market currencies losing value and 'safe haven' currencies, such as the Japanese yen and the euro, gaining.



The dollar-riyal peg also came under pressure but Saudi Arabia's ample foreign reserves mean we see no change in the peg going forward.

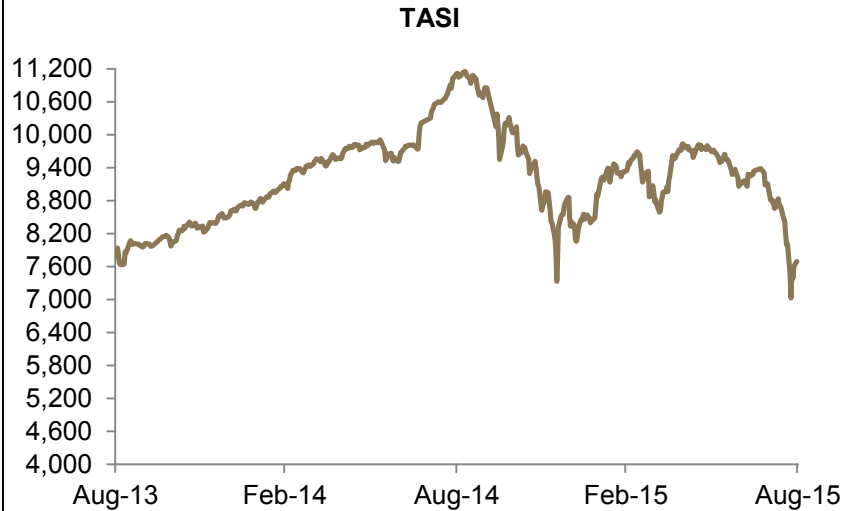




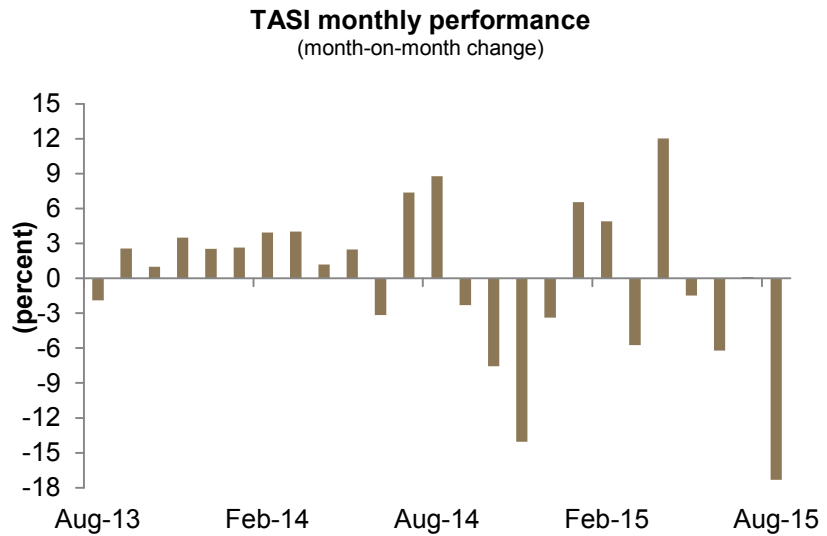
Stock Market

A fall in the Chinese stock market prompted a mass sell-off across global markets as investor sentiment dampened. After registering losses of 23 percent at one point in August, the TASI recovered to close 18 percent lower month-on-month, as a drop in oil prices added to bearish investor sentiment.

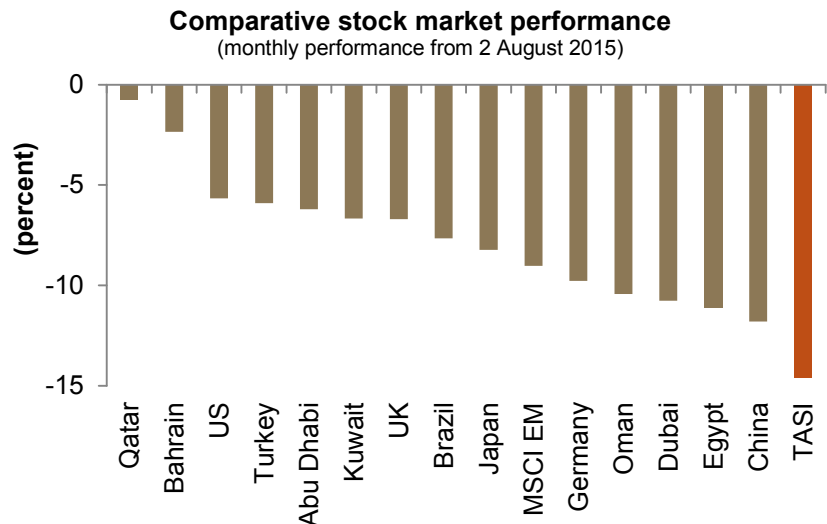
A combination of lower oil prices and general negative investor sentiment saw the TASI fall by 18 percent month-on-month...



...which was comparable to the drop in monthly performance witnessed back in November 2014.



A general sell-off in equities was seen globally, with all major global and regional indices down during August.



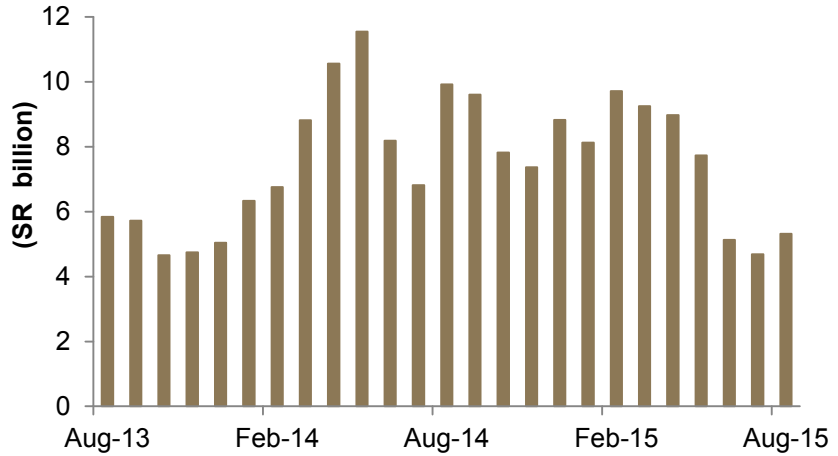


Volumes

Although average turnover edged up in August, month-on-month, the drop in value of the TASI led to market turnover being below the year-to-date average in most sectors. Volatile trading during the month saw a spike in smaller sector's trading volumes.

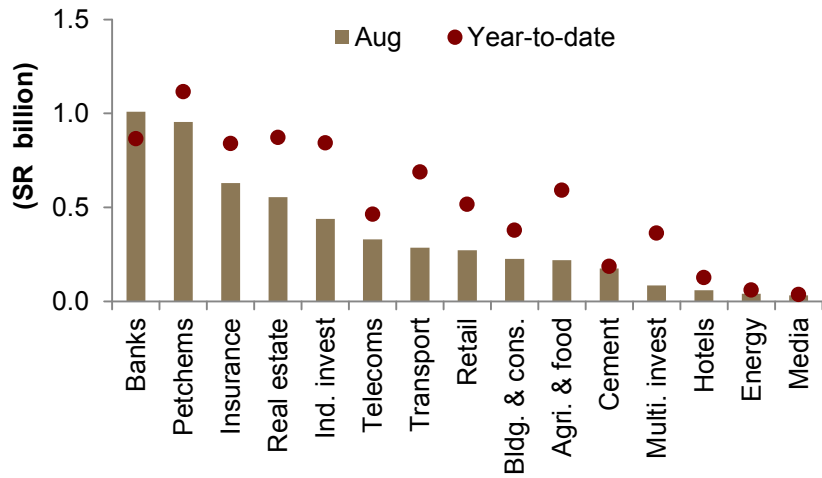
Market turnover was up in August...

Daily average stock market turnover



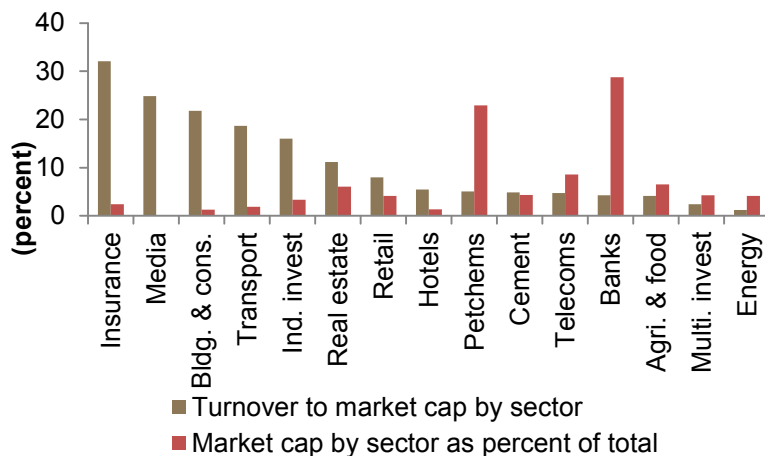
...although it is still below year-to-date averages.

Turnover by sector (daily average)



More volatile trading throughout August saw a spike in market turnover amongst smaller sectors, suggesting speculative trading was very high during the month.

Turnover as percent of market cap (August, 2015)

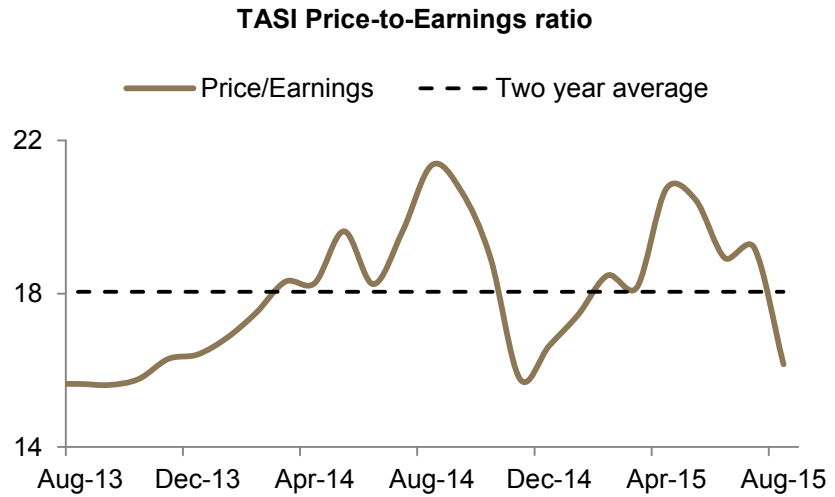




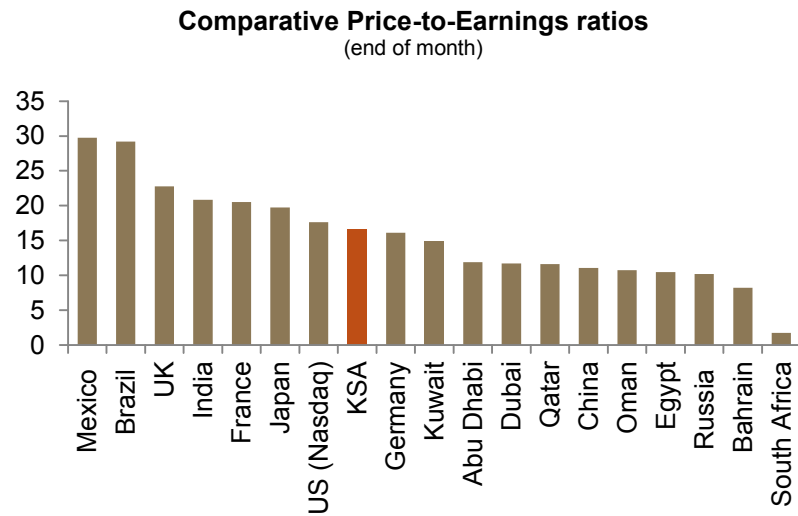
Valuations

The weaker performance of the TASI during August saw price-to-earnings (PE) drop below the two year average for the first time since January 2015. The TASI is currently still at a premium to most regional markets, which also witnessed sell-offs during the month, whilst dividend yields remain in-line with emerging markets.

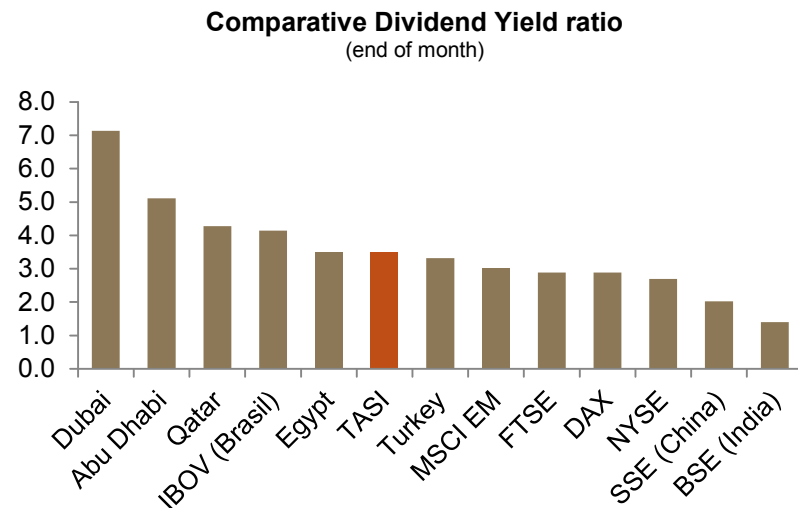
PE dropped to 16, below the two year average of 18...



...with the TASI showing comparatively higher PE than regional markets.



Dividend yield remains in-line with emerging markets.

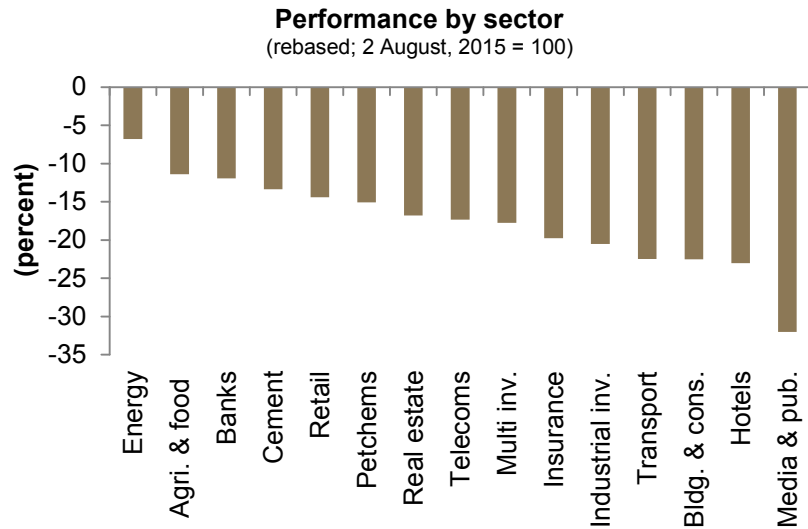




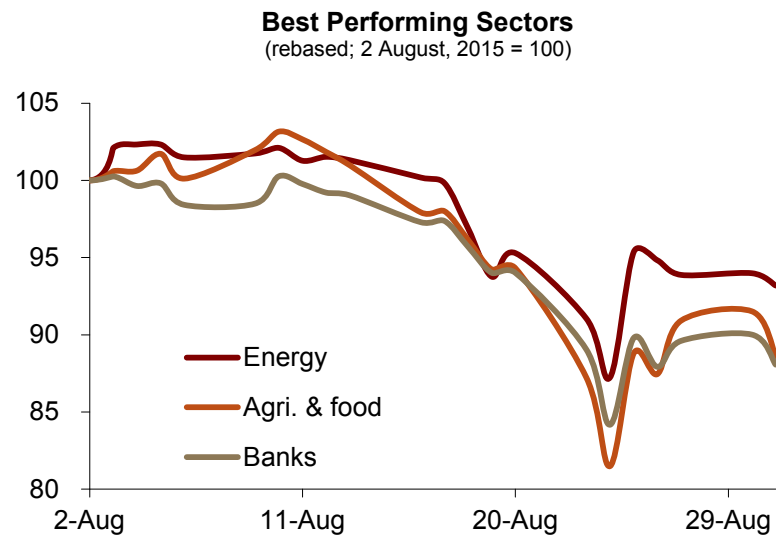
Sectoral Performance

All fifteen sectors saw negative performances in August as investor selling was felt across most of the market due to negative sentiment. Media was one of the worst performers but transport and building & construction also struggled.

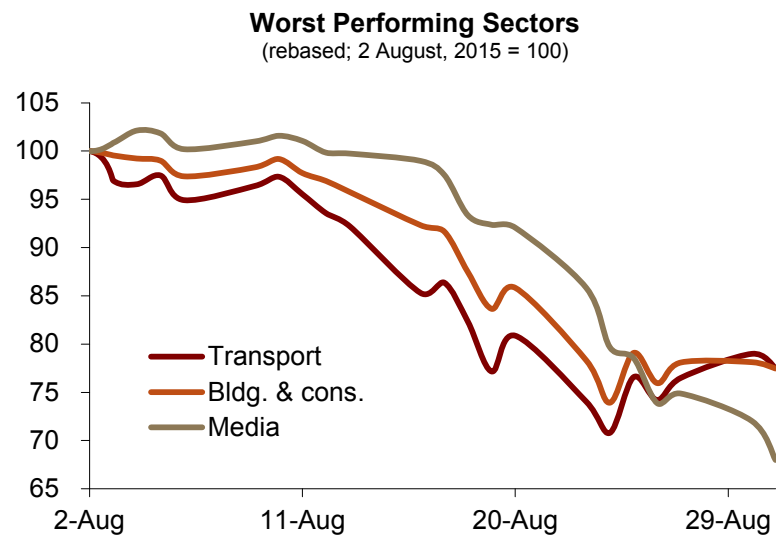
Selling of stocks by investors was felt across all sectors.



No sector saw any positive gains over the month in August...



...even though there was an improvement towards the end of the month.





Key Data

	2008	2009	2010	2011	2012	2013	2014	2015 F	2016 F
Nominal GDP									
(SR billion)	1,949	1,609	1,976	2,511	2,752	2,791	2,798	2,465	2,610
(\$ billion)	519.8	429.1	526.8	669.5	734.0	744.3	746.2	657.3	696.1
(% change)	25.0	-17.4	22.8	27.1	9.6	1.4	0.3	-11.9	5.9
Real GDP (% change)									
Oil	4.3	-8.0	-0.1	12.2	5.1	-1.6	1.5	3.4	0.2
Non-oil private sector	11.1	4.9	9.7	8.0	5.5	7.0	5.6	3.8	4.7
Government	6.2	6.3	7.4	8.4	5.3	5.1	3.7	2.4	2.0
Total	8.4	1.8	4.8	10.0	5.4	2.7	3.5	3.2	2.3
Oil indicators (average)									
Brent (\$/b)	97.2	61.7	79.8	112.2	112.4	109.6	99.4	56.0	61.0
Saudi (\$/b)	94.0	60.4	77.5	103.9	106.1	104.2	95.7	52.0	57.0
Production (million b/d)	9.2	8.2	8.2	9.3	9.8	9.6	9.7	10.1	10.1
Budgetary indicators (SR billion)									
Government revenue	1,101	510	742	1,118	1,247	1,156	1,044	678	677
Government expenditure	520	596	654	827	873	976	1,110	1,087	973
Budget balance	581	-87	88	291	374	180	-66	-409	-296
(% GDP)	29.8	-5.4	4.4	11.6	13.6	6.5	-2.3	-16.6	-11.3
Domestic debt	235	225	167	135	99	60	44	148	263
(% GDP)	12.1	14.0	8.5	5.4	3.6	2.2	1.6	6.0	10.1
Monetary indicators (average)									
Inflation (% change)	6.1	4.1	3.8	3.7	2.9	3.5	2.7	2.1	1.9
SAMA base lending rate (% , year end)	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.4	3.4
External trade indicators (\$ billion)									
Oil export revenues	284.1	166.9	215.2	317.6	337.5	323.1	285.2	165.7	172.2
Total export revenues	313.5	192.3	251.1	364.7	388.4	375.9	342.3	224.8	236.5
Imports	101.5	87.1	97.4	120.0	141.8	153.3	158.5	158.1	159.1
Trade balance	212.0	105.2	153.7	244.7	246.6	222.6	183.9	66.6	77.4
Current account balance	132.3	21.0	66.8	158.5	164.8	135.4	76.9	-10.7	4.1
(% GDP)	25.5	4.9	12.7	23.7	22.4	18.2	10.3	-1.6	0.6
Official reserve assets	442.7	410.1	445.1	544.0	656.6	725.7	732.4	628.7	623.9
Social and demographic indicators									
Population (million)	25.8	26.7	27.6	28.4	29.2	30.0	30.8	31.5	32.2
Saudi unemployment (15+, %)	10.5	11.5	12.4	12.1	11.7	11.7	11.7	11.7	11.6
GDP per capita (\$)	20,157	16,095	19,113	23,594	25,139	24,816	24,252	20,851	21,586

Sources: Jadwa forecasts for 2015-16. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. Central Department of Statistics & Information and Jadwa estimates for oil, social and demographic indicators.



Disclaimer of Liability

Unless otherwise stated, all information contained in this document (the "Publication") shall not be reproduced, in whole or in part, without the specific written permission of Jadwa Investment.

The data contained in this research is sourced from Reuters, Bloomberg, The World Bank, Tadawul and national statistical sources unless otherwise stated.

Jadwa Investment makes its best effort to ensure that the content in the Publication is accurate and up to date at all times. Jadwa Investment makes no warranty, representation or undertaking whether expressed or implied, nor does it assume any legal liability, whether direct or indirect, or responsibility for the accuracy, completeness, or usefulness of any information that contain in the Publication. It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action(s) that may take place in future.